The Sandwich Generation: Financial Planning for Caregiver Clients

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The finances of non-professional caregivers in America are being stretched in more directions than ever before. The newest generation of retirees is still being challenged to care for others in their life, including parents and children. Longer lifespans mean those who are just starting retirement may be caregivers for their retired parents who need assistance, while continuing to be the “family bank” for adult children.

In this eBook, we outline the direct and indirect costs of being in a caregiving role. We also interviewed Jenifer Sapel, ChFC®, CEO and president of Utor Wealth. The practice specializes in working with clients who have found themselves in caregiving roles. Sapel provides valuable insights into strategies designed to help your clients navigate these complex responsibilities while still staying on the financial path to their own retirement.
What happened?
As the responsibilities of retirees have changed over the last few years, their concepts of financial obligations have changed as well. Whether they are continuing to act as the family bank for longer than expected or juggling surprise caregiving needs for their parents, your clients are facing a new set of expectations—and associated costs—that are important to integrate into their comprehensive financial plan.

Longevity Increases Complexity
While caregiving has long been a factor to consider in retirement planning, living longer adds a layer of complexity. A 30-year retirement isn’t unusual now, and traditional sources of retirement income—mainly Social Security and pensions—don’t provide the same sense of security that they did in the past.

Not only does increased longevity mean more years of healthcare to afford, but also many Americans are starting their retirement before they’re eligible for Medicare, and healthcare inflation continues to outpace the rate of general inflation. The average couple is expected to need $285,000 in today’s dollars for medical expenses in retirement, excluding long-term care. While costs for healthcare continue to rise, Americans’ understanding of how much healthcare will cost them is not keeping up. The average pre-retiree age 50 and over underestimates their healthcare costs in retirement by approximately 30%. These unplanned costs can eventually fall to other family members.

How have the funding needs of adult children changed over the last few years?
Yes, a significant number of millennials are still dependent on their parents for financial assistance, even into their 30s. The good news is they want to be financially independent. While millennials have been stereotyped as overly reliant on their parents for continued financial assistance, they are also facing a different set of financial struggles and increasing expenses compared to earlier generations. This group of young adults—specifically those born in the 1980s—graduated college in the midst of a recession, starting their careers in the face of high unemployment rates, weak wage gains, and more college debt than any previous generation. While wages have continued to increase, they haven’t kept up with rising costs of living. Rent, home prices, and college tuition costs have all generally risen faster than incomes in the U.S.

- Millennials buying their first home today will pay 39% more than boomers who bought their first home in the 1980s.
- Adjusted for inflation, rents increased by 46% from the 1960s to 2000.
- From the late 1980s to the 2017–18 school year, the cost of an undergraduate degree rose by an average of 213% at public schools, adjusted for inflation.

While those born after the 1980s generally experienced an immediate loss of value in their homes or investments, many were able to wait out their recovery and gain most of this wealth back, as their assets appreciated in value over time. Most millennials did not go into the recession with assets and simply came out with non-productive debt. This generation is now worth 34% less than they would have been had the recession not occurred, compared to 18% lower wealth levels for those born in the 1970s, and 11% lower wealth levels for those born in the 1960s. As a result, many near-retirees in these older generations are being counted on to make up for the millennial wealth gap.
How has this impacted the financial stability of retirees or near retirees?
Many boomers are finding themselves sandwiched between pressures to address:

- The financial needs of their adult children, who they thought would be financially independent by now, and
- The needs of their retired parents, who thought they had saved enough to cover the costs of retirement but were surprised by the true costs of healthcare and long-term care.

Seventy-nine percent of parents continue to serve as the family bank for their adult children, paying not only for big-ticket items, such as college and weddings, but also for smaller expenses such as phone bills, groceries, and rent. Parents of adult children contribute $500 billion annually to their adult children’s lives—twice the amount they invest in their own retirement accounts. Sixty-three percent of parents in one study said they have sacrificed their own financial security for the sake of their children.5

While Americans tend to underestimate their own retirement and healthcare costs, they also underestimate their relatives’ healthcare and caregiving expenses. The average non-professional caregiver spends $7,000 a year in the U.S. on their loved one who needs care. This money often comes out of the caregivers’ retirement funds to cover these unplanned costs. AARP estimates that caregivers are spending approximately 20% of their income to care for loved ones.6

These costs are just the obvious direct costs of caregiving; the indirect costs can have an even more drastic impact on financial well-being:

- Caregiving can require time away from work, which can mean missed opportunities for promotions and pay increases. These missed pay increases turn into missed investment earnings, as this income could have been growing wealth in a 401(k) or other retirement product.
- Women are particularly vulnerable to seeing their plans for retirement get put on hold because of the financial toll that caregiving can take. They pick up more caregiving duties than men, including for in-laws, and, therefore, spend more time away from work, compounding the already detrimental pay gap, which leads to an even larger retirement wealth gap.7

Where to Start – Uncomfortable Conversations
Jen Sapel of Utor Wealth adds more insights into how financial professionals can best support clients who feel sandwiched between the needs of multiple generations in their family. Her tips for helping clients navigate caregiving roles while trying to stay on track for retirement can become a helpful part of your retirement-planning strategy, starting today.
The Parents
As a financial professional, you can encourage your clients to start the conversation early. Many people wait for a crisis before they talk to their parents about their preferences for healthcare or their financial situation. Waiting until that moment can lead to more reactionary decision making, rather than big-picture thinking that takes other important life details into account.

Here are a few prompts and guidelines to help your clients prepare for this conversation with their parents and/or elders:

- Walk your clients through what they would like the goals of the conversation to be. What would a good outcome of the conversation look like to them?
- Ask them what they are picturing being most difficult about this conversation and try to find them sources of support. For example, you can help your clients find a non-threatening conversational opening by suggesting an article, news item, or their own financial planning journey to prompt the talk: “I just read an article about making sure you know where your family members’ important papers are. Could you show me where all this information is sometime?” or “I’m starting to learn about estate planning. I’d love to get your perspective.”
- Encourage your clients to meet with their parents’ financial professional to find out where things really stand.

When helping your client think through a potentially difficult conversation with their parents, you have an opportunity to suggest that they ask specific questions that could have an impact on their own financial planning.

- Inquire whether your clients’ parents have Medicaid or long-term care (LTC) insurance. Caregiving costs may be eligible to be covered under either of these. Your client may also be eligible for tax breaks for time and money spent caregiving.
- Make sure your clients know the status of the following:
  i. Outstanding loans
  ii. Bank accounts and investments
  iii. All forms of insurance coverage

Following the conversation your clients have with their parents, assess the largest caregiving costs, including the ones that weren’t anticipated prior to the conversation, and determine the most immediate priorities. From these priorities, identify possible products that would support both short- and long-term needs. For example, if a loved one lacks the cognitive ability to actively manage their investments, an annuity may be an acceptable recommendation because the insurance company is responsible for managing this money. Investments in annuity contracts may not be suitable for all investors.

Tips from Jen Sapel:
“When it comes to caring for aging parents, typically we see the burden falls just as heavily on time and health as it does on financial resources. Here, we encourage clients to find a balance in their role as son or daughter and healthcare provider and don’t go it alone. All healthcare providers, informal and formal, function better and provide better care as part of a team.”

What is an annuity?
Annuities are long-term, tax-deferred vehicles designed for retirement. Variable annuities involve investment risks and may lose value. Earnings are taxable as ordinary income when distributed. Individuals may be subject to a 10% additional tax for withdrawals before age 59½ unless an exception to the tax is met.
What should I say to a client who is too scared to start a conversation about such a sensitive topic?

Jen Sapel: “The best thing you can do is start the conversation now, and I assure you, it won’t be perfect, and that’s okay. The other critical component is to make sure your thoughts and feelings are in the right place as you have these conversations. Keep in mind that you are essentially confronting your parent’s mortality. It’s a normal human reaction to become defensive with this topic, so the best thing you can do is be patient and listen more than you speak. After all, this is about their plan, not yours. Lastly, know that this is a subject that will evolve over time, so don’t have the expectation that you are going to figure it all out in one sitting. Make a target that you’d like to have an idea of a plan within the year and would happily update it as things change.”

…doesn’t know where to start or what the goals of the conversation should be?

Jen Sapel: “With lines of communication open, any situation can be navigated. It’s easy to feel overwhelmed, but essentially a good plan only needs to answer a few questions. Regarding care, where would you like to receive it, who would you like to provide it, and how will it be paid for.

• The first response for most people on the where question is ‘at home.’ I find that this is the default answer primarily because the only other option that comes to mind is a nursing home. Explore and tour alternatives like adult family homes and assisted living facilities in your area. Your loved ones may be surprised to find vibrant communities with shared gardens, pools, pubs, pickleball courts, and many other activities and wonderful people.

• When it comes to paying for care, there really are only three options: out of pocket, LTC insurance, and Medicaid. The reality is that 52% of us will need LTC, and a comprehensive financial plan should be tailored to the health history and care preferences of your client’s loved ones.

• And as for who will provide care, there should be more than one care provider. The biggest mistake within families is designating one individual, typically a spouse or daughter, to do the bulk of caregiving. This is a team sport and whoever the primary caregiver is should have a team of respite caregivers who step in regularly to support both.”

The Kids Are(n’t) Alright

What can financial professionals tell parents with young children to do now to help them be self-sufficient when they’re older?

Jen Sapel: “Two things: Be financially self-sufficient (and, thus, set a good example) and talk with your children about money. It’s difficult to do the second without addressing your own financial habits and behaviors. It isn’t uncommon to find households where both spouses are spending two-thirds of their time earning money and almost no time managing the money they earn. One simple recommendation I have in this scenario is a monthly financial date night. This is a simple hour each month (over champagne or craft beer in my household) where both partners participate in taking inventory of account balances and monthly money inflows and outflows. This is not to be an exercise in finger pointing or arguing, rather an agreement to both participate in the family’s financial health and future decision making.

Ideally, the time to start engaging children in financial conversations is between 5 and 8 years old, but if you haven’t yet, it’s never too late. A book I love to send to new parents is Raising Financially Fit Kids by Jolene Godfrey. In it, she breaks down childhood development by age and suggests conversations and exercises you can do to teach financial lessons.”

How has the role of the financial professional changed now that clients feel like they need to be financially supporting their adult children longer than previous generations?

Jen Sapel: “Financial professionals know that the easy part of the equation is advising clients how to make the most of each dollar that has been earned and invested. The more challenging part of the equation is helping the family navigate financial priorities and potential
changes. In other words, we can calculate the impact on retirement if adult support for a child continues. Would they prefer to keep on that course, or would they prefer to transition out of it? If they decide to transition an adult child off financial support, it is generally a process (not an event) in which they need assistance navigating.

Having grown up in a family where we were financially dependent on grandparents, I’ve seen firsthand how crippling extended financial assistance can be to adult children. My approach is to discuss what parents hope to accomplish with the assistance they are providing. The first answer is usually that they want to help and hope that the children become financially independent soon. This is when I point out that most studies show that more money does not fix money problems. This is most famously illustrated with lottery-winner studies showing anywhere from one-third to 70% declare bankruptcy within five years. Instead, we brainstorm other ways to instill financial independence. I also suggest that if family members are utilizing your relationship like a bank, that you also act like a bank. In other words, require financial documentation prior to dispersing funds, assess the risk, and reserve the right to say no.

To put these things in action all starts with clear and loving communication. Let the adult child know that for the financial health of all parties, things are going to change. This doesn’t mean that you love or support them less, it just means that for everyone’s best interest, these changes must occur.

- Make it clear what your objective is: Financial security for yourself, financial independence for them and their families, etc.
- Be clear around timelines. Making major changes is usually a process and not an event, so decide upon a reasonable timeline—very few financial challenges cannot be addressed within a year, and most changes will only require a month or two.
- Be clear around expectations moving forward. For example, if you are covering a phone bill or car insurance (through a transition), you require a monthly meeting where all income and expenses will be reviewed together at an agreed upon date and time.
- Stick to your guns. If you need a cheer squad when your child gets angry with you, enlist the help of your financial professional or friends. Changing the behavior of adults can be more challenging than teaching a toddler that eating animal crackers is not a healthy dinner option. Toddlers may throw a fit, but if you stick to your boundaries, they will respect your consistency and your relationship will most likely improve significantly.

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